

**Review of Commercial Activities
at the
Railroad Retirement Board
Report No. 98-04, December 4, 1997**

Background

OMB's Circular A-76 and the Revised Supplemental Handbook (OMB guidance) require agencies to define their activities as either governmental or commercial in nature. The OMB guidance directs an agency to differentiate between those activities that must and should be performed by the government and those activities that are better performed by private industry.

A governmental activity is so intimately related to the exercise of the public interest as to mandate performance by federal employees. An agency's performance of commercial activities is allowable if it is: 1) specifically exempted by the agency; 2) subject to cost comparison or direct conversion requirements of the OMB guidance; 3) exempted by Congress, Executive Order or OMB; 4) in the process of being cost compared or converted; 5) performed in-house as a result of a cost comparison; 6) in the process of being reviewed; 7) prohibited from conversion by legislation; or 8) a function for which a waiver has been issued.

The RRB can also perform commercial activities if one of the following conditions exist:

- the RRB has the necessary capabilities to fulfill its mission responsibilities, or meet emergency requirements.
- no satisfactory commercial source is available.
- activities are performed by 10 or fewer full-time employees.
- established performance standards are being met.
- the RRB can perform the activity at a lower cost.

The government should not be in competition with its citizens, and it is the government's policy to rely on commercial sources to supply the products and services that are needed whenever possible.

Agencies are required to maintain an inventory for activities deemed commercial. In addition to maintaining the inventory, the agencies periodically review these commercial activities to determine if the activity should continue to be performed in-house by governmental employees, or by private industry. Previously, each agency was required to

send the completed inventories to OMB, but now agencies make them available upon OMB's request.

To comply with OMB guidance, the RRB's Office of Administration annually contracts the bureaus, through the Bureau of Supply and Service (BSS), requesting updates for Circular A-76 Commercial Activities. Supplemental documentation is provided, which assists the bureaus in identifying their commercial activities. An appointed technical team periodically reviews the inventoried activities to determine whether the activity should continue in-house to be performed by government employees or should be performed by private industry.

Some agency managers support contracting as many functions as practicable. Agency staff are examining such areas as payroll administration, mail sorting and delivery, library services and local area network administration for possible future agency commercial contracting.

Objective, Scope, and Methodology

The objective of the review was to determine if additional activities exist at the RRB that should be classified as commercial activities and considered for contracting. We reviewed pertinent laws, regulations, and procedures to develop an understanding of what constitutes inherent governmental activities. We discussed with BSS the process by which the RRB complies with the directives of the OMB guidance. To determine the types of commercial activities available, we used the Internet as a research tool to obtain current information on the subject of contracting in general, and more specifically, the types of areas within the government and private industry that are being contracted. Additionally, to further develop our understanding of contracting, we contacted a firm in private industry that performs contracted activities.

We conducted the review at RRB headquarters from August to November 1997.

Results of Review

Based on our limited review, we believe that more RRB activities should be identified as commercial based on OMB guidance. Also, one of the RRB's recent cost comparisons is incomplete. OMB guidance provides a framework for an agency to separate functions into either governmental or commercial in nature. We believe the RRB has complied with OMB guidance to the extent that the bureaus have examined their areas and identified potential commercial activities. However, because the bureaus perform their own evaluations, the current Inventory of Commercial Activities does not adequately reflect the number and types of commercial activities at the RRB. Also, a lack of uniformity in the evaluation process may have contributed to the differences in the performance of the cost comparisons.

The Office of Administration's most recent Inventory of Commercial Activities dated April 1997 identifies 39 commercial activities at the RRB which are currently under contract. Many of these activities could be classified as facility maintenance, or activities for which the General Services Administration previously contracted on behalf of the RRB.

The Inventory of Commercial Activities lists eleven commercial functions being performed at the RRB. Of these activities, one is performed at the RRB as a result of a cost comparison (Nurses), two are specifically exempted (Automated Data Processing Facilities Management Services, Automated Data Processing Programming and Systems Analysis), and eight are subject to cost comparisons. These eight activities are Payroll, Stockroom, Printshop, Mailroom, Library, Programmer, and the Local Area Networks for the General Counsel and the Office of Programs.

In December 1996, BSS solicited comments from the bureaus on commercial activities being performed in their areas. The bureaus responded formally to this request, and the results indicated that very few commercial activities, other than those already contracted or identified as commercial, remain at the RRB. Rather than independent review teams evaluating bureau activities, the bureaus were responsible for evaluating their own areas.

While an entire bureau may not be identifiable as commercial and subsequently eligible for commercial contracting, subsections might qualify. For example, the RRB has not identified activities such as accounts payable, or actuarial activities as commercial. These types of functions are available commercially and, as such should be identified as commercial. They should be listed in the Inventory of Commercial Activities and periodically studied to determine if commercial sources are more practical in the performance of the activity than the RRB.

The BSS recently completed a review of its mailroom operations. Based on a comparison between the appointed technical team's cost estimate and private industry bids, the most cost effective method was determined to be the continued performance of the Mailroom function by agency employees. The BSS is currently reviewing the activities of the Printshop for possible performance by the private sector.

The Bureau of Fiscal Operations (BFO) also completed a similar review of the RRB's Payroll/Personnel System in April 1997. BFO's report does not adequately address the issue of obtaining fair and reasonable prices for the performance of this function. Based on a cost comparison with the National Finance Center, a component of the Department of Agriculture, BFO determined that retaining this function in-house is more cost effective. While a comparison to another federal agency's costs for a related activity is a positive step, one comparison does not offer enough evidence upon which to base a decision. BFO should have solicited bids from private industry similar to the process BSS followed.

Conclusion and Recommendations

Private industry has developed firms that offer services specializing in various commercial functions such as accounting, human resources, and actuarial activities. With more commercial services becoming available, it is important that an organization continually examine its operations to determine the best course of action in a changing business environment. The RRB has complied with the intent of OMB guidance, but it has identified few new commercial activities. The OIG believes the RRB should perform a more thorough analysis of operations to identify additional commercial activities.

We recommend that the Executive Committee:

1. Have independent teams review various functions of the RRB to determine commercial activities subject to OMB guidance.
2. Develop a uniform series of steps and/or a checklist for the independent and technical review teams to follow when they are evaluating activities and performing cost comparisons, respectively.

We also recommend that the Chief Financial Officer:

3. Determine if more favorable and reasonable costs can be obtained for the Payroll/Personnel System by solicitation of bids from private industry.

Management Response

For recommendations 1 and 2, management states that RRB task forces were previously established to evaluate contracting agency activities. Because of the additional time and expense, management believes another independent review is not warranted.

For recommendation 3, management does not believe additional cost analysis of payroll administration is necessary because: 1) the RRB meets the criteria cited in the OIG's report addressing this issue, 2) the unique requirements of the payroll system would require a commercial operation to make costly system modifications, and 3) no other federal agency uses a commercial organization to process their payroll. Management further notes that in addition to contacting the Department of Agriculture National Finance Center, the RRB obtained cost information from the Department of the Interior showing their cost for processing payroll was higher than RRB's cost.

OIG Comments

The OIG believes all its recommendations have merit. The OIG's first two recommendations are meant to address the issue of more objective evaluations of functions during the RRB's annual updating of commercial activities inventory as required by A-76. The OIG was not advocating another review similar to that conducted by the RRB's task forces in 1995. However, periodic independent evaluations, such as that performed by the task forces, would be beneficial, because of the many changes taking

place both within the RRB and in private industry. Therefore, we still believe independent reviews should be performed and uniform procedures for analysis be created and implemented to ensure consistency.

Finally, neither management's response nor the information provided on the analysis of the payroll administration indicates how it was determined that private industry did not have the capabilities to meet the RRB needs. Additionally, we were unable to find any reference to the Department of Interior costs in the analysis performed by the RRB and noted in management's response. Therefore, the OIG still believes additional analysis is required for payroll administration.